

# PHILIPPINES ECONOMIC WRAP-UP

NOVEMBER 10-17, 2000

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Summary  
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A bit of normalcy seems to have returned to Philippine financial markets, as the political turmoil surrounding a gambling scandal and President Estrada develops into a legal battle with the formal filing of impeachment charges. Meanwhile, the real economy continues to chug along with August manufacturing output rising 9.3% (year-on-year). The central bank reported that its defense of the peso had led to an erosion of its international reserves position, and weak investment has resulted in the expansion of the balance of payments deficit. The government has temporarily eliminated tariffs on oil and oil products in an effort to help reduce the impact of higher international oil prices; the Philippine House of Representatives is considering a further reduction in excise taxes on fuels for the same reason (and leaving aside the effect of such measures on the government's budget deficit). Finally, we note that there are new talks about again trying to sell Philippine National Bank (for the umpteenth time).

Readers should note that due to the Thanksgiving Day holiday, we will not publish the "Wrap-Up" on Friday, November 24. Our next edition will be released Friday, December 1.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our October Economic Outlook, which is also available on our web site.

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FOREX REPORT  
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The Philippine peso seems to have (at least temporarily) stabilized at just below the P50/\$1 mark. As reported earlier, much of the recent volatility in the peso's value has been based on political sentiment. With a formal impeachment now approved by the Philippine House of Representatives and Senate preparations for a trial, traders and speculators seem to be reluctant to bet on the outcome as yet. The Philippine peso ended the week at P49.86/US\$, down from a close of P50.20 on Friday, November 10.

Banks and forex traders have expressed misgivings over a recent circular of the Bangko Sentral ng Pilipinas which "clarifies" an earlier circular which tightened reporting requirements on forex corporations. The BSP claimed that the original circular was issued to help quell speculation in the forex market and to prevent money laundering and other illegal activity by requiring reporting of and documentary support for any forex transaction exceeding \$10,000 (paralleling a similar requirement imposed on banks). However, banks have likened the new restrictions to a "creeping form of capital controls." The "clarifications" include the fact that forex corporations (i.e., subsidiaries of commercial banks engaged in forex transactions) may not sell foreign exchange (a) for investment purposes; (b) for payment of foreign exchange obligations to residents other than authorized agent banks, or (c) for the sole purpose of depositing the foreign exchange proceeds in a foreign currency deposit unit account. Bangko Sentral ng Pilipinas (BSP, the central bank) Governor Rafael Buenaventura rejected the notion that these measures

constitute capital controls; he explained that banks are still able to service the legitimate (and properly documented) forex needs of their clients. BSP officials also noted that the new measures are envisioned as temporary, and should be lifted as speculative pressures diminish.

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Exchange Rate Tables  
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Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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OCT 09	46.506	46.550	67.9
10	46.790	46.890	156.4
11	47.265	47.315	197.5
12	47.806	47.700	198.0
13	48.350	48.500	107.5
OCT 16	48.738	48.670	125.2
17	48.458	48.300	117.3
18	48.516	48.570	90.5
19	48.739	48.775	97.5
20	48.767	48.740	98.0
OCT 23	48.894	48.960	76.7
24	49.143	49.205	99.5
25	49.633	49.650	155.0
26	50.033	50.400	58.5
27	51.015	50.080	46.0
OCT 30	51.427	51.480	77.8
31	51.680	51.000	28.5
NOV 01	Markets Closed		
02	Markets Closed		
03	Markets Closed		
NOV 06	48.895	48.050	133.5
07	48.911	49.250	133.5
08	50.189	50.100	154.5
09	50.414	49.950	185.8
10	49.661	50.200	166.0
NOV 13	50.314	50.350	125.5

14	49.885	49.830	93.5
15	49.717	49.800	65.5
16	49.904	49.890	124.4
17	49.915	49.860	79.5

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Source: Bankers Association of the Philippines

# CREDIT MARKET REPORT

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At the weekly auction of Treasury bills on Monday, November 13, rates on all three maturities fell as demand for the government paper returned. Rates on the 91-day bill fell 43.1 basis points to 16.292% and the rate on the 182-day bill fell 20.7 basis points to 17.022%. Interestingly, interest rate on the 364-day bill fell a full 52.6 basis points, bring its yield to 16.863%, below that of the 182-day bill. The T-Bill offering had been increased to P3 billion (from P2 billion last week); all the bills were awarded against some P7.4 billion in bids. BSP Governor Rafael Buenaventura told reporters that it was prepared to cut key policy rates if market conditions continued to improve. Local businessmen have complained that high interest rates will choke off the country's fragile economic recovery. Buenaventura, however, cautioned that the issue still required study and analysis, and Monetary Board action to cut overnight rates would depend on continued stabilization of the peso.

An auction of 'cash management bills' (CMBs, which have temporarily replaced the weekly T-bond auctions) on Tuesday, November 14 saw similar results; rates on the 42-day bill fell 70.9 basis points to 15.130%; the rate on the 70-day bill fell 81.6 basis points to 15.570%. As a result of the falling rates; National Treasurer Leonor Briones announced plans to continue shifting the structure of government borrowing. The Treasury, which had reduced the CMB auction to P4 billion from P5 billion last week, will again cut the value of the CMB auction to by P500 million to P3.5 billion beginning next week, while increasing the auction of 364-day T-bills by P500 million to P1.5 billion. The move is intended to help

the government shift the focus of its borrowing back to longer-term issues.

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Domestic Interest Rates (in percent)  
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Treasury Bills  
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Auction Date	91 days	182 days	364 days
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OCT 09	9.392	11.839	12.982
OCT 16	9.892	12.339	13.498
OCT 23	all bids rejected		
OCT 30	no sales	no sales	18.926
NOV 06	16.723	17.229	17.389
NOV 13	19.292	17.022	16.863

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks  
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Date of Survey	Average	Range
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OCT 05	11.3769	10.50 - 13.50
OCT 12	11.4892	10.50 - 13.625
OCT 19	14.3294	10.924 - 24.50
OCT 26	15.9834	11.625 - 24.50
NOV 09	18.5480	14.50 - 21.172
NOV 16	18.6764	14.50 - 21.50

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT  
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The Philippine Stock Exchange (PSE) saw little activity this week, as investors waited to see which way the political winds would blow. Press reports about depressed corporate earnings further depressed investor enthusiasm. Trading volumes were relatively low, but were boosted by a few block trades. PSE contacts have indicated that bargain-hunting foreign capital has begun to return to the market -- in small amounts, but

reversing earlier outflows of portfolio funds. Overall, the 33-share Philippine Stock Index (PHISIX) ended the week at 1470.52; the November 10 close was 1488.98.

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Philippine Stock Exchange Index (PHISIX) and  
Value of Shares Traded  
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Date	PHISIX Close	Value (Million pesos)
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OCT 09	1365.01	615
10	1332.22	607
11	1326.26	4435 /a
12	1318.74	1080
13	1323.65	1202
OCT 16	1292.05	689
17	1271.75	569
18	1263.67	534
19	1256.96	1053
20	1251.23	1018
OCT 23	1267.69	445
24	1282.42	481
25	1294.37	616
26	1293.63	554
27	1284.88	812
OCT 30	1284.66	359
31	1287.85	536
NOV 01	Markets Closed	
02	Markets Closed	
03	Markets Closed	
NOV 06	1500.10	3840
07	1512.58	2084
08	1478.42	1768
09	1488.79	1006
10	1488.95	857
NOV 13	1455.94	695
14	1469.58	724
15	1469.20	3703
16	1468.44	2371

a/ including a P3.9 billion block sale of Globe Telecom shares

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Source: Philippine Stock Exchange

#### AUGUST 2000 MANUFACTURING OUTPUT

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The National Statistics Office's (NSO) latest Monthly Integrated Survey of Selected Industries (MISSI) estimates that manufacturing volumes grew 9.3% year-on-year in August -- decelerating from the consecutive, double-digit growth rates of May (14.1%), June (15.2%) and July (21.3%). The pattern of manufacturing output since mid-1999 suggests a "building-up" and "running-down" approach to inventory management. Net sales volume in August grew by a faster 14.3% rate (from 4.7% in July), but the year-on-year expansion recorded thus far during the July and August (which averaged 9.5%) marked a slowdown from the average 14.4% year-on-year increase posted during the second quarter.

Overall, manufacturing output is expected to surpass the 1.6% full-year 1999 real growth rate recorded in the Philippines' national income accounts (based on gross-value-added or GVA terms). First semester numbers estimated manufacturing GVA to have expanded 6.1% year-on-year. The July and August MISSI results indicate the possibility of a sustained, perhaps even somewhat improved, third-quarter expansion. However, there are increasing concerns over fourth-quarter performance, considering the economic and political uncertainties affecting both business and consumer confidence. Developments since October -- i.e., the sharper depreciation of the peso, larger adjustments in domestic fuel prices and utility rates, wage increases, and hikes in domestic interest rates (resulting from efforts to temper forex volatility) -- have further raised operating costs and eroded purchasing power. These threaten to slow overall demand and manufacturing activity during the remaining months of 2000. In addition, the manufacturing sector's performance will be coming off a relatively

higher fourth-quarter 1999 base (which was boosted in part by Y2K-related disruption fears).

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MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES  
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	Year-on-Year Change (%)	
	Production Volume	Net Sales Volume
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January 1999	-12.4	-19.0
February	-8.4	-13.8
March	-1.6	-4.9
April	3.5	1.4
May	3.7	-4.4
June	-1.2	-3.0
July	-1.7	-5.8
August	15.2	-4.8
September	5.5	11.9
October	10.8	13.5
November	-4.7	8.9
December	20.6	12.1
January 2000	13.3	20.0
February	7.4	6.3
March	3.0	8.2
April	-0.1	10.8
May	14.1	22.5
June	15.2	9.8
July	21.3	4.7
August p/	9.3	14.3

p/ preliminary (based on 75% response rate)

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Source: National Statistics Office

INTERNATIONAL RESERVES AND BOP  
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Preliminary estimates show the Bangko Sentral's gross international reserve position (GIR) at \$14.4 billion as of end-October 2000, down \$468 million from September. According to BSP officials, the decline reflected debt servicing requirements and occasional intervention by the Bangko Sentral to smoothen out volatility in the foreign exchange market (triggered by the gambling scandal



implicating President Estrada). The BSP's international reserve cushion has generally been on the downtrend since peaking at \$16 billion in March, which partly reflects developments in the balance of payments (BOP, see below). The BSP had hoped to build-up its reserve cushion to \$16.1 billion by yearend, but now appears unlikely to meet that targeted level. Lethargic imports have prevented a radical decline in terms of months of import cover. International reserves as of October equaled 4.4 months' worth of goods and services imports, compared with March's buffer of 4.8 months of imports.

Similar estimates -- computed from the change in the BSP's net international reserves -- indicate that the Philippines' overall balance of payments position had slipped to a deficit of about \$880 million as of end-October. Based on partial details available thus far, BSP officials attributed the ten-month deficit to a negative reversal in the capital and financial account (reflecting smaller net loan inflows as well as weak investor confidence).

#### EO SUSPENDS 3% IMPORT DUTY ON CRUDE AND FUEL PRODUCTS

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To soften the impact of rising petroleum prices on the cost of basic commodities and services, the President issued Executive Order (EO) 314 which reduced from a uniform three percent (3%) to zero percent (0%) the import duty on crude oil and selected petroleum products. In effect for three months starting November 8, the government hopes the measure will keep pump prices steady until January 2001. The Department of Energy (DOE) estimates the government will lose some P1.1 billion (\$22 million) of revenues over the three months as a result of the tariff suspension. (Note: an Energy Industry Administration Bureau officer noted to the Embassy that while the tariff suspension will translate into a revenue "loss", due to escalating oil prices in the world market, tariffs collected from these imports for the first half of 2000 has already reached full year 1999 level. End note.)

Earlier, Petron and Shell officials said they may defer their planned fuel price adjustments in November if the 3-percent tariff on crude and petroleum products would be

suspended immediately. The Consumer Oil Price Watch led by industrialist Raul Concepcion asserted that immediate suspension of the 3-percent import tariff could reduce prices by 25 to 30 centavos per liter. The 3% tariff suspension for three months will apply to the following petroleum imports:

HS Code	Petroleum Product	Import Duty
2709.00 00	Petroleum, crude	0%
2710.00 30	Fuel Oils	0%
2710.00 80	Gas oils including diesel, kerosene, jet fuel, motor gasoline and other heavy oils	0%
2711.12 00	Liquefied propane	0%
2711.13 00	Liquefied butane	0%
2711.19 10	Mixture of liquefied propane and butane	0%

Source: EO 314

#### MORE RELIEF ON OIL PRICES?

The Ways and Means committee of the Philippine House of Representatives has approved House Bill (HB) 12592, which proposes to reduce the excise tax on various petroleum products, in response to President Estrada's urgent request to fast track approval of the measure. Under the bill, a 10% excise tax cut would be applied on motor gasoline and fuel oil, and a higher 20 percent cut on kerosene and diesel (there is no excise tax on LPG). The Administration's efforts to advance the bill are intended to grant relief from higher international oil prices to consumers. But the Department of Finance (DOF) is wary of the impact on government revenues, considering that in August the government had already exceeded its original target budget deficit for the year. At that time, Malacanang had admitted the proposal was not workable. Instead, Malacanang took the lead in adopting measures to reduce fuel and energy consumption in government. An industry source has commented that the effort at tax relief may also be intended to generate some political support for an embattled President. HB 12592 is currently pending a second reading in the House.

## PHILIPPINE NATIONAL BANK: NEW EFFORT TO SELL?

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Press reports suggest that local tycoon Lucio Tan may be looking to sell his stake in troubled Philippine National Bank. Tan reportedly is willing to sell to any foreign buyer, but will not sell to local competitors (Tan owns a second commercial bank in the Philippines, Allied Bank.)

Tan acquired a controlling stake in Philippine National Bank in 1998 through a series of "backdoor" transactions (which sparked much controversy and make it difficult to say with any certainty exactly how much of the bank he truly owns). In 1999, under the terms of an agreement with the World Bank, the government began efforts to sell its 30% stake in the bank, and persuaded Tan to join in the sale in an attempt to attract a better price. The effort failed and Tan subsequently agreed to purchase the government's shares. But then he was unable to live up to the terms of the deal, and the government remains stuck with a stake in the bank (which has been diluted to about 16% by a stock rights offering earlier this year).

Government officials have confirmed that Tan is serious about his willingness to sell his stake, and have suggested that a deal could include a securitization and sale of the bank's non-performing loans. The chief restriction would be that Tan will only sell to a foreign buyer; he reportedly will not sell to any local, particularly Chinese-Filipino, competitors. (The only local bank that had seriously looked at buying PNB previously was Rizal Commercial Banking Corporation (RCBC), owned by the Chinese-Filipino Yuchengco Group of companies.) The officials said that the government would look to go in with a Tan sale to dispose of its stake at a good price. The successful sale of the government's shares in PNB will clear the way for the release of some \$200 million from the World Bank's Banking Sector reform loan.